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Industrial Distribution

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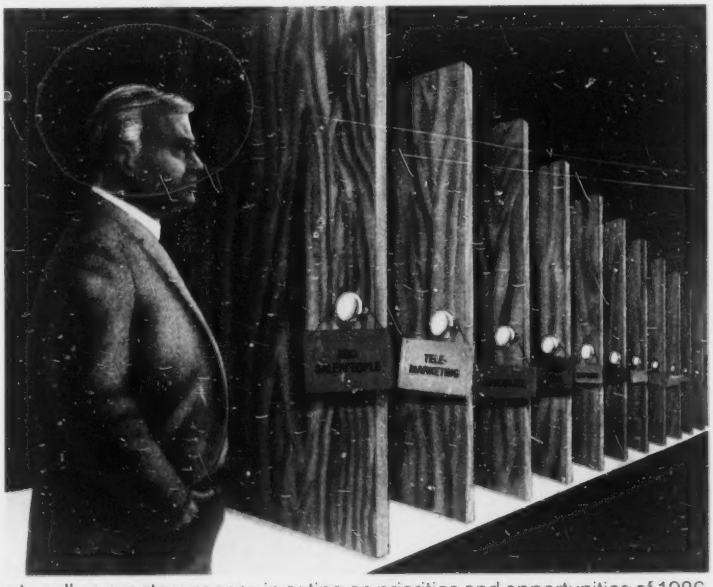
NEW PRIORITIES; NEW OPPORTUNITIES



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INDUSTRY NEWS...

[*continued from page 12*]
grams as principally conditional sales contracts, 65% operating leases and 67% tax-oriented fair market value leasing.

Respondents to the study claimed that major advantages for lessees are:

- Cash flow—85%
- Tax considerations—53%
- Off balance sheet financing—45%
- One-hundred percent financing—34%
- Better asset utilization—20%
- A hedge against technological obsolescence—18%

Although 95% of the respondents indicated that they anticipate using leasing within the next two years, nearly 63% expect the loss of investment tax credit to have a significant impact on their marketing efforts, 32% reported it would have some effect and 4% expect litlittle effect.□

Ashenden named district manager

NEW YORK—Daniel E. Ashenden has been named *ID*'s district manager. In his new position he has advertising responsibilities for the states of IA, NB, KS, MO and portions of IL. Employed by *ID*'s parent company, Technical Publishing, in January of 1985 as a district manager on *Contractor* magazine, Ashenden will also continue in that capacity.

Ashenden

A graduate of Michigan's Northwood Institute with a B.A. in Business administration, he lives in Chicago.□

Indicators . . .

Of the three major indices, one registered an inconsequential gain and two showed minor losses in a continuation of the inconclusive patterns of recent months. The NIDA/SIDA *Industrial Distribution Index* rose nationally from 143.4 in September to 146.8 in October. Regionally, the East, Midwest and West showed small gains in October of 2.9, 5.4 and 5.8, respectively, while the South retreated by 2.1 points. The current figure is just 0.1 higher than its October '84 counterpart...SIDA's *Monthly Sales Trend Report* declined by 3.21 points in September reflecting weakness throughout three of its four regions. Area I (NC, VA, WV) lost 6.59, Area III (AL, KY, MS, TN), the largest loser, fell 10.18, Area IV (AR, LA, OK, TX) dropped 3.85. The one SIDA area to increase its share, Area II (FL, GA, SC, Puerto Rico), rose by 2.18. The essentially flat figure is just 0.63 above September '84 and year-to-date '85 shows a 0.73 improvement over year-to-date '84...ASM-MA's *New Order Index* for September fell 0.8 points to 119.5 from August, a percentage decline of 0.7%. While significantly lower than the two highs of 125.5 registered earlier in the year and the 121.0 reached in September '84, the current figure exceeds every number prior to January of 1984...The American Machine Tool Distributors' Assn. (AMTDA) *Order Index* rose a dramatic 38.3% in September over August, climbing to 81.9. The figure is also a healthy 25.0% higher than the September '84 figure of 65.5...The National Welding Supply Assn. (NWSA) *Welding Supply Index* increased 8.4 points in October to 211.6. This compares with 196.6 in October '84 and 15.1% improvement in year-to-date '85 versus YTD '84.

REGIONAL REPORT

October sales pull even

A slight improvement in national sales figures has October '85 at 0 or even compared with October '84. This compares with a negative 4% recorded in both August and September yearly sales comparisons (see graph).

Of the six regions reporting, two were off (South Atlantic, down 1%; and West North Central, down 12%), while four were in plus territory (New England, up 1%; Middle Atlantic, up 1%; East North Central, up 5%; and Pacific, up 1%). Taken at face value, these sales statistics for distribution do not seem impressive; however, the month-to-month statistics, a more accurate barometer of sales trends, show impressive gains.

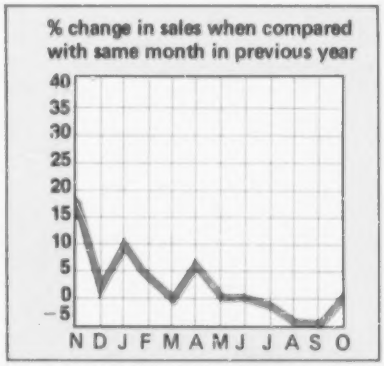
All regions and areas reporting figures for October '85 vs. September '85 indicated healthy monthly sales gains, most in double figures. The best region was New England, up 18%; the best area, Michigan, up 26%. The weakest region was West North Central, up 8%; the weakest area, Wisconsin, up 7%. The U.S. Total stands at a positive 13%, the highest it's been in several months.

In cumulative reporting, the first 10 months of '85 vs. the first 10 months of '84 is up 2%, the same as last month. All of the figures in this grouping are in single digits indicating that for many distributors, 1985 shows no great change either way compared to 1984.□

RECEIVABLES*

	Oct. '85 Gen.	Oct. '85 Spec	vs. Oct. '84 Gen.	Oct. '84 Spec.
New England	48	45	46	45
Middle Atlantic	46	42	46	45
South Atlantic	35	34	36	33
East North Central	38	41	39	41
East South Central	39	—	37	—
West North Central	—	39	—	39
West South Central	—	42	—	40
Mountain	—	—	—	—
Pacific	41	41	42	41
National	41	41	41	41

* Average days outstanding



Slight gains in October sales . . .

SALES BY REGIONS (% change)

	Oct.'85 vs. Sep.'85 Gen.	Spec.	Both	Oct.'85 vs. Oct.'84 Gen.	Spec.	Both	1st ten months'85 vs. 1st ten months'84 Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	+13	+22	+18	0	+1	+1	+1	+5	+3
Connecticut	—	—	—	—	—	—	—	—	—
Massachusetts	+17	—	—	−1	—	—	+3	—	—
MIDDLE ATLANTIC: NY, NJ, PA	+24	+14	+16	0	+2	+1	+5	+2	+3
New York Metropolitan Area	—	—	—	—	—	—	—	—	—
Upstate New York	+23	+7	+18	−9	+3	−2	+15	−11	+7
Pennsylvania	+16	+16	+16	−8	−4	−5	−13	0	−3
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC, SC, VA, WV	+18	+10	+13	−1	−1	−1	−4	+2	−1
Georgia-Fiorida	—	+6	—	—	−3	—	—	+3	—
EAST NORTH-CENTRAL: OH, IN, IL, MI, WI	+12	+18	+14	+1	+12	+5	+2	+6	+4
Indiana	—	—	—	—	—	—	—	—	—
Wisconsin	+7	+7	+7	+2	−2	−1	+2	+6	+5
Chicago	—	—	—	—	—	—	—	—	—
Michigan	+18	+34	+26	+13	—	—	+3	+16	+9
Ohio	+13	—	—	0	—	—	+5	—	—
EAST SOUTH CENTRAL: AL,MS, KY, TN	0	—	—	+3	—	—	+14	—	—
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	+29	+2	+8	−11	−12	−12	−7	−1	−2
WEST SOUTH CENTRAL: AK, LA,OK, TX	—	+11	—	—	−14	—	—	−4	—
Texas	—	+19	—	—	−9	—	—	−4	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	—	—	—	—	—	—	—	—	—
PACIFIC: CA, OR, WA	+12	+5	+10	+5	−12	+1	+8	−4	+5
L.A.-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	—	+5	—	—	−8	—	—	−2	—
U.S. TOTALS	+13	+12	+13	+1	−1	0	+3	+2	+2

Distribution 1986: New priorities; new opportunities

With local, national and worldwide trade trends now impinging more strongly on the way distributors do business, industry experts call for greater urgency in acting on the priorities and opportunities of 1986

For several years now, under the low heat of a worldwide recession and subsequent fits and starts of recovery, the distribution industry has been simmering away. At the same time, a number of trends, some outside the influence of distributors, some of the industry's own making, have been building pressure, both promising and threatening.

While distributors have been fairly effective at cutting costs and improving productivity through streamlining inventory, trimming labor costs, computerizing the bookkeeping and warehousing operations, all during a time when low inflation rates have prevented them from increasing prices, outside factors other than inflationary pressures are slowly but gradually dislocating traditional distributor operations and policies and changing the face of the industry, from its blue and white collar operations to how it buys and sells (see **Like It or Not** in this issue).

Day by day, week by week, newspapers and business magazines reveal the new or accelerating pressures on the industrial distributor: major manufacturers, suppliers to the distribution business, are divesting, acquiring, merging and consolidating their divisions and product lines at an alarming rate. Imports are becoming more firmly entrenched not only in inventories, but in the minds of customers looking for a way to cut their own costs. Mechanization and automation, are taking place in just about every industrial facility that plans to stay in business beyond 1986.

By **Milt Ellenbogen**
Managing Editor
and **Paul Frichtl**
Associate Editor

It now appears that the distributor no longer has the choice of waiting to see what happens, to see how his contemporaries are going to respond. Though the choice is difficult for the typical self-made, owner-manager industrial distributor, he is just beginning to realize that his remaining choice, as echoed by distributors and top industry experts polled by INDUSTRIAL DISTRIBUTION, is to depend less on his own instincts and turn to his customers for direction.

"Because of all the changes, the dynamics, the broad trend developing is going to be for distributors to act more like an extension of their customers and less like extensions of their suppliers' marketing departments," says Dan Ruple, president of Metropolitan Supply, Los Angeles, speaking, he says, strictly from "gut feeling and observation."

High-tech entry

Probably the single biggest market opportunity for distributors is certainly not new, but perhaps more immediate than it has been in recent years, is the still somewhat indefinable high-tech market. According to Ronald Cota, president of Cota & Associates, Fairfield, CT, marketing consultants, "If a distributor is going to do it ever, he had better start now. The longer he delays, the more expensive it's going to be to get in and to make a successful business of it . . . He had better be doing his homework so that he is not the last in line to meet his customers' needs."

On a broad scale, those customer needs are well defined. At the 1985 Power Transmission Distributors Assn. annual convention, Edward Reid of Industrial Distribution Consultants, Simsbury, CT, told distributors that while traditional smokestack industries experienced zero growth in the 12 years to 1984, computer equipment shipments rose 18% per year and electrical-electronics grew 8% a year. In robotics, the number of installations has grown from about 1000 in 1970 to 5000 in 1980 to between 25,000 and 30,000 in 1985. Machine peripherals such as programmable controllers and the growing array of automatic, closed-loop control elements are expected to grow from a $20 million industry two years ago to about $180 million by 1987.

Getting a foot into factory automation, according to Reid, can be done in several ways. The easiest and least expensive depends on the customer's needs. If a plant is into miniaturization, then the distributor might stock specialty tools like tiny screwdrivers, solders and adhesives, precision workholders, inspection devices and other items related to existing stock, but more specific to the high-tech application.

The next level of entry may be carrying and servicing certain components

and possibly even designing systems for factory automation. The high-tech inventory might include some forms of instrumentation, fluid drives and components, and programmable controllers, to name a few. Ruple sees it as "going up the ladder a step," that is, taking products that complement and interface with Metropolitan Supply's pneumatics and hydraulics systems and selling them to the same customers. However, he warns, it requires a greater, longer-term outlay in retraining sales and service people, adding new lines, and more intensive marketing. Also, the risks are greater with some products, particularly those related to computers and electronics, becoming obsolete in as little as six months and prices eroding because of oversupply.

Reid sees the greatest growth potential in distributors carrying complete systems, gathering the products of many manufacturers into an intensive value-added operation that includes design, panel and modification shops that enable the distributor to tailor-make automation sub-systems. "The factory automation distributor won't look like any distributor we have out there today," Reid says. Such conversions would require even greater investment in inventory and training, and greater supplier-distributor cooperation.

Supplier-distributor relationships may be critical link in the more advanced high-tech entries. Cota points to the many manufacturers who use distributors as their channel of choice, while others hesitate to use the industrial distributor because they perceive a greater need for technical expertise.

Such discriminatory practices work both ways, however, since a distributor must consider the current strength of a supplier's position in the marketplace and his commitment to the future.

Concludes Cota, "the change isn't going to stop, and if a distributor's waiting for things to settle down before he jumps in, it's going to be too late.

Diminishing sources

According to an informal *ID* survey of distributors, there appears to be little concern over the divestiture and merger activities of suppliers. So far, they say, it has affected few of the companies they deal with. And, while they have good relations with existing suppliers,

[*continued on page 38*]

Near term outlook bright for most distribution markets

In spite of the many problems distributors face going into 1986, positive factors such as the continuing low inflation rate, the still expanding economy, and the falling dollar measured against other currencies have led forecasters to predict slow but steady growth for most areas of manufacturing, which bodes well for distribution. As to be expected, certain areas will perform outstandingly well while others will be disappointing. The unknown factor, renewed off-shore demand for American-made products coupled with a corresponding decline in the appeal for foreign-made goods, could be the difference between a passable year and an outstanding one. The negative possibilities, out-of-control inflation and a meaningful rise in interest rates, are not taken as serious possibilities by most analysts in near-term forecasting.

Material handling industry leads the way

With the stress on cost savings through greater productivity, such items as conveyors and automated storage and retrieval systems have been foremost in demand by managers of factories and distribution centers. Other items such as hoists and cranes, and programmable controllers on the high tech side are also very much in demand (see Table 1).

A major factor contributing to the high projected growth rate beyond 1985 is the expected increase in spending for capital equipment which has been relatively slow in coming considering the elapsed time since the last recession. Plans for constructing new factories and warehouses increase the demand for automated material handling equipment, and low interest rates plus the prospect of increased business, both domestic and offshore, enhance the market for this new construction.

The slowest growing segment of the material handling industry is the industrial truck and tractor market which has been severely hurt by price competition from non-U.S. manufacturers. This too could change if the dollar continues to weaken in '86.

Cyclical factors considered

Business conditions for commodity items are among the most difficult to predict because cyclical factors can, and most often do, play major roles in these types of businesses. A booming demand for electronics components was busted when the computer industry fell into a prolonged slump which still continues. The fastener industry, in which many distributors cater to their customers by stocking any of a number of different types and styles of nuts and bolts and associated hardware is also precarious, indicative of its cyclical nature.

According to Frost & Sullivan, a New York-based market research firm, the pattern for the fastener industry is a sudden, sharp drop in revenues which lasts for a year or two, followed by a fairly rapid recovery, then a leveling off of business followed by another abrupt decline. The last sharp drop occurred in 1982 when sales declined almost 25%, before the 1983 recovery.

From 1984 through 1989, the total consumption annual growth rate (see Table 2) is estimated at 6%, with the aircraft/aerospace industry expected to excel at 10.2%. These figures are higher than normal because of the sharp 1982 slump. If 1979 were the base year, for example, the annual growth rate for total consumption would be 2.2%.

In dollar figures, the largest projection to 1989 is in the area of bolts, with the market topping $1 billion. The heaviest demand is expected to be in mine roof bolts followed by hex and squared bolts, with 10% growth estimated. The weakest projection (around 3%) is for round bolts. Other projected strong sellers include socket head screws and other large screws which include specialty items used by manufacturers of heavy machinery. Poor prospective domestic markets are those that use the types of fasteners that have been taken over by off-shore manufacturers, and include bent bolts for construction and public works in which no growth is predicted, and nuts, in which imports of large nuts now exceed 90% of domestic production by weight. Specialty fasteners have their own niche in the marketplace, but users are indicating a desire to replace specialty items with standard parts wherever possible to reduce inventory requirements and simplify assemblies.

Hydraulics future rosy

The hydraulics industry, severely hit in 1982, and down again in '83, has turned around dramatically and offers one of the best prospects among industrial products sold through distribution for at least the rest of this decade. According to statistics and reports gathered by Business Trend Analysts, a New York-based market research firm, production and spending for new plants and equipment were up for every end-use sector (even farm machinery), and the estimate continues to look rosy (see Table 3).

One of the main reasons for the turnaround in this industry is the result of the combination of electronic control devices and hydraulics permitting the use of microprocessors and thus a new generation of valves and pumps, enabling maximum response and higher efficiencies for a variety of systems.

Hydraulic filters and parts for pumps and motors, and hydraulic and pneumatic actuators, are all expected to do well in meeting heavy demand.

Between 1984 and 1994 domestic manufacturers' sales of hydraulic equipment is expected to grow at a compounded rate of 7.8% with sales up at approximately $8.44 billion by the end of the period.

Slow growth projected for industrial pipe/fittings

Restrained plant construction next year and perhaps into 1987 is the major reason for the low forecast of a cumulative average rate of 1.4% (from 1984 to 1989) for industrial pipe and fittings (see Table 4). This forecast includes or mixes products sold through distributors with the process oriented products commonly sold directly by manufacturers' to the end users.

Figures indicate that the volume of spending for pipe and fittings has not followed proportionately with increases in capital expenditures over the past few years. It is reasoned that less is being spent on traditional machinery and equipment (including piping), and more on high-tech information processing, comunications and automation equipment. Additionally, the emphasis on modernization as well as MRO supplies instead of new plant construction, has tended to limit the volume of orders for new pipe and fitting instaliations.

Selected bellwether market projections

Table 1—Average annual growth rates for manufacturers' sales of material handling equipment

Period	All material handling equipment	Industrial trucks & tractors	Conveyors & conveying equipment	Hoists, cranes & monorails
1972–1985E	7.6%	5.5%	9.8%	7.4%
1972–1977	13.8	12.5	15.3	15.7
1977–1982	4.3	0.6	8.2	3.4
1982–1985E	3.5	3.1	3.9	3.4
1985–1994P	8.1	7.3	8.6	8.4

E—Estimate by Business Trend Analysts
P—Projection by Business Trend Analysts
Source: U.S. Department of Commerce

Table 2—Estimated fastener consumption, all uses
($ Millions)

	1984**	1985	1986	1987	1988	1989	% annual growth
Total consumption	3835	4181	4682	4871	5003	5136	6.0
Bolts	729	841	880	1013	1052	1069	8.0
Large screws	599	655	739	752	752	776	5.3
Small screws	640	697	787	797	821	838	5.5
Nuts	487	530	601	583	579	579	3.5
Non-threaded	630	667	697	722	754	756	3.7
Aircraft/aerospace	524	594	701	748	788	850	10.2
Specialty & other	225	197	277	256	257	265	3.3

*Constant 1984 dollars
**Base year for projections
Source: Frost & Sullivan (estimates)

Table 3—Domestic manufacturers' sales of hydraulic fluid power products
($ Millions)

Year	Domestic manufacturers' sales	Annual % change
1979	3,645.5	23.9
1980	3,537.5	-3.0
1981	3,631.8	2.7
1982	3,354.3	-7.6
1983	3,291.7	-1.9
1984	4,014.4	22.0
1985E	4,423.2	10.2
1994P	8,436.4	7.8(1)

E—Estimate by Business Trend Analysts
P—Projected by Business Trend Analysts
(1) Average annual growth rate, 1984–1994
Source: U.S. Dept. of Commerce

Table 4—Forecasts of U.S. demand for industrial pipe and fittings by principal type and material
(Constant 1984 $ Millions)

	1984	1985	1987	1989	5-year annual growth (%)
Carbon steel	1,013	1,025	1,014	1,085	1.4
Stainless steel	402	410	402	435	1.6
Lined	106	110	109	118	2.2
Plastics	105	107	105	113	1.5
Fiberglass reinforced	100	103	102	111	2.1
Cast and ductile iron	63	63	61	60	-1.0
Carbon alloy steel	49	49	46	50	0.4
Nickel and nickel alloys	45	47	45	50	2.1
Premium metals and alloys	40	42	40	45	2.4
All other	45	44	42	45	0.0
Total	1,968	2,000	1,966	2,112	+1.4

Source: Frost & Sullivan

Distribution 1986...

[*continued from page 36*]
they see the opportunity for access to new lines and improved support from the assumedly healthier new parent.

But, because some takeovers and divestitures are being instigated at the highest corporate levels, the new management, oriented mainly to the P&L and isolated from the realities of their divisional operations, may consolidate or eliminate lines, impose far reaching management changes and deep cost cutting measures to buoy the profit/loss statement. Discriminate and aggressive new sales and marketing strategies may leave less productive distributors, even the long-tenured, by the wayside while their competition picks up the customers more loyal to the product name than to the unfortunate distributor.

"The sorting out process is going to create a lot of anguish for distributors," comments Metropolitan's Ruple.

Yet, according to Reid, "Those who are a true value-added service to the product of the manufacturer will survive and do even better than they have in the past."

Preparedness, then, is important--keeping an eye vendor movements and having an alternative, whether it is a new supply source, or proof to the vendor that a distributor can carry his weight and make a contribution.

Specialization

Because technology is impinging so heavily on distribution, will there be a place for the general line distributor? Obviously, the fasteners, the hand tools, portable power tools, disposables and the vast array of MRO products without which not a wheel would turn in the plant, make the general liner a valuable industrial asset and will still be needed even in the most highly mechanized and automated plant.

The increasing demand for one-stop-shopping supports the need for the general liner. Yet it also points to the need for any distributor to be able to supply and service the specialized and increasingly complex needs of the customer if he is to maintain a privileged position in his own marketplace. With the added emphasis on new technology, the power transmission distributor, as an example, may need to expand his capabilities in more sophisticated motion control with the addition of such products as the programmable controller, mini process computers, and sensory feedback devices which are rapidly becoming standard, off-the-shelf items for automation-oriented distributors.

But, specialization is not for everyone, nor can it be. Some geographic areas cannot support such specialties, while they may thrive in more metropolitan or industry-specific areas.

When looking into possibilities for specialization, recommends Ron Cota, disregard labels that define your own or other distributorships as, for instance, "electronic or power transmission distributor" because their significance diminishes the further into specialization

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the distributor gets. Labels limit thinking to the narrow group of lines one might carry, rather than the broader range the customer or a changing market may need. Decisions will key on reaction to, and anticipation of, customer needs for products and services.

Adds Ruple, "It's also important to match the direction you want to take the company with the talent that you have in place. Otherwise, it's like starting a whole new company."

Distribution mergers

With the move toward total or partial specialization and the balance of economic output between low-tech smokestack industry and high-tech industry rapidly closing to the point where they will cross at 20% of total economic output this year, mergers and buyouts of diverse types of distributorships will become a major avenue for distributors wanting to capitalize on new market opportunities and to increase territories.

Integrated manufacturing is a high-potential market for one-stop purchasing of related specialties, such as fluid power and mechanical power transmission, electrical and electronic, power transmission and material handling. The customer will be able to go to the new specialty combines and buy a total package rather than having to flit from distributor to distributor to gather the diverse elements of his system.

'The sorting out process is going to create a lot of anguish for distributors.'

More distributors, well aware of the profit potential in specialization, will either merge, buy out, open new branches, or establish specialized capabilities in house. Computer systems already in place in the home office can easily be linked to branch offices, the inventories can be tailored closely to the local market, and central purchasing on a larger scale can allow distributors to deal more efficiently with suppliers.

While the acquisition route, according to Arthur Andersen & Co. partner David K. Carlson, "is one approach whereby a distributor can grow geographically or get into a new product line without using internal capital to start from scratch and doing it himself," the cost of opening a new branch is fairly attractive as well. With centralized operations at the home office, it takes little more than a prefabricated warehouse, racking, inventory and a skeletal labor force. In some cases, the cost of the building can even be shared with other distributors as is the case in Mansfield, OH, where Pattison Supply Co., a general line distributor and *ID*'s

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Distribution 1986...

1985 Distributor of the Year (*ID:* December 1985) occupies quarters jointly with a rubber distributor and an electrical distributor.

To illustrate the scope of the trend toward mergers and buyouts, a report put out by the Distribution Research and Education Foundation of the National Assn. of Wholesaler-Distributors predicts that the number of small distributors, doing under $20 million in sales, will decrease by 25% to account for about 38% of total distributorships, and their share of total sales will decrease by 50%. Medium-sized companies will increase to about 32% of the total and their share of total sales, between $20-100 million, will remain about the same. Total sales for companies doing an annual business of more than $100 million will increase by as much as 60% by 1990.

According to a recent *ID* survey, 29% of the general line distributors and 25% of the specialists would welcome an aquisition offer.

Imports

Imports are an ambiguous area for the distributor. Limited in his ability to raise prices, cheaper, or for some reason more readily available, imports can often mean higher profit margins, especially in some commodity areas like fasteners, and certain types of mechanical power transmission. At the same time, commitment to cheaper commodity items in the warehouse may only fuel what many see as the possibility of rampant price cutting practices among distributors everywhere.

While foreign suppliers often use existing distribution channels as their main thrust for moving into the U.S. marketplace, there is also the danger in some product areas that they will set up their own network of competitive, specialized distributors.

Consultants like Ron Cota see a trend toward higher quality technological foreign products "that are going to be giving some of the U.S. manufacturers a good run for their money," especially where customer loyalty to domestic manufacturers is weakest.

'It's also important to match the direction you want to take the company with the talent that you have in place.'

Mass merchandizers

Increased competition and the trend toward refining marketing practices to boost sales has led a growing number of suppliers to the mass merchandizers like K-Mart, Sears and the scores of regional retailers catering to the small

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contractors and do-it-yourselfers. According to Bob Munson, of Phillips Supply Co., Cleveland, OH, many big-name companies that have traditionally dealt solely through distributors, especially fastener, safety equipment and power and hand tool manufacturers, have found these to be profitable outlets with increasing customer potential, responding to the convenience and lower prices of the mass merchandizer.

More and more, distributors are becoming concerned about such inroads. Paul Connelly, president of Construction Tool Service, Pittsburgh, Pa, says he expects four such operations to open in his area in the next year.

While the distributor may choose to ignore the mass merchandizers and rely on the service-added benefits of dealing with a distributor, his other option is to compete with them directly, which may mean opening up a showroom, boosting local advertising and adopting some of the practices of retailers to draw in walk-in and pick-up customers.

"It's been a migratory path where we are trying to find the laid-off steelworker running the two-man shop, the teeny tiny guys that several suppliers have found are buying their tools through the lumber yards," says Connelly, who in recent years has seen an exodus of some of his major customers. "It's a tough road because you don't really know where to get a hold of these guys, or anything about their credit ratings. But that's a potential growth area."

Opening a showroom opens up a list of considerations most distributors have not had to deal with before, for example, showroom space and the investment in setting up displays; there must be salespeople on the floor and behind the counter. Further, there must be decisions on maintaining minimum billings, price differentials between cash & carry customers and credit accounts, the use of credit cards, and credit to the small contractor in a fledgling business; on controlling pilferage by walk-in customers; on selling to the non-professional, price-seeking do-it-yourselfer; and on product liability considerations for non-professional customers.

'The factory automation distributor won't look like any distributor we have out there today.'

In some cases, Connelly says, distributors compete with outfits that operate on profit levels under 1%, while the average distributor needs about 30% to cover labor and inventory.

Connelly said his priority now is expanding his showroom and counter area and getting more product out on display. "I think it's necessary that we get that done as soon as possible, get our own version of the DIY in place before

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these giant chains get it done."

Local advertising will play a major role in picking up these customers, and a major consideration brought up here is brand recognition. An alternative to direct competition with the low prices mass merchadisers are willing to offer on brand name products is to minimize stocking the brands that chain retailers market the most heavily.

Connelly concludes, "There should at least be the effort to out think them. We should target our own market and actively seek that, rather than be dictated to by the marketplace."

Local advertising

Following the trend toward trying to attract new or difficult-to-reach customers to showrooms, or to new branches, distributors will be turning more to local advertising in newspapers and on radio and television.

"The question is how to communicate more cost effectively, and while print communication is not the total answer, it is growing," says Martin Manaly, president of Distributor Publications, Milford, CT.

Manaly, a former industrial distributor himself, sees the mail order catalog as one of the more popular and productive forms of increasing business. Because of the increasing cost of making personal sales calls, now estimated to be between $150 and $200 a call, and with, according to Manaly, 90% of a company's business coming from the top 20% of its customer list, there is a large market sector of medium and small customers being lost by default. With increased competition in the industry, there are areas where the salesmen are making calls but the competition is getting the business, and salesmen are increasingly having trouble reaching the right contacts.

For these reasons, Manaly says, a well targeted catalog program, mailed to the appropriate person, listing the distributor's inventory and his prices, is more likely to remain on the desk of the buyer as a reference book.

Mailing lists, he adds, are critical to such mailings–so critical that they cannot be left to the subjective and biased mind of the salesman for development. "Most are not disciplined to approach the mailing list as a very important asset base," he says. Instead, a comprehensive mailing list should be developed by "an accounting type person on staff who recognizes the importance of standard industrial classifications."

Direct mail, often using cooperative advertising budgets offered by suppliers is another alternative, but far less productive by Manaly's estimations. He says that too many of these very product-specific, hit-or-miss publications come across the purchasing agent's desk each day, and he more often remembers the name of the manufacturer, not the distributor.

Distributor newsletters, however, enable the distributor to spotlight his own specials, while imprinting the name and scope of the company through news items.

'We should target our own market and actively seek that, rather than be dictated to by the market.'

Where next for computers

Approximately 70% of distributors now have some kind of computer system in place, but most of those have hardly begun to tap into the potential of their systems, says Ed Reid. Computers are now commonplace in the operational end of the business, keeping track of accounts payable, salary and inventory, which Reid suggests is important because 70%-80% of a distributor's assets are in accounts receivable and inventory. But, continues Reid, distributors need to move into such areas as sales and marketing, and warehouse automation.

On the sales end, more distributors are equipping outside salesmen with remote terminals for order entries, inventory searches, credit checks, and other instant-response feedback over the telephone from a customer's office, the salesman's home, or a roadside phone.

Direct or electronic order entry between the customer and the distributor is another growing use of the computer, though the use is growing faster between the distributor and his suppliers. In the case of the customer, telephone hookups between computers allows the customer to enter orders at his convenience, often through a customer-specific matrix of such factors as price and his own inventory numbers.

So far, the move to electronic order entry has beeen relatively slow–about 10% per year of those distributors reporting computer capabilities. But with new entries such as *Redinet*, a completely computerized, independent network linking manufacturers to distributors for information interchange, and impressive advances in distributor-compatible hardware and software, more manufacturers and distributors are expressing interest. One estimate puts the number of terminals in manufacturer-distributor exchanges at around 300 nationwide, with growth figures at 10-15% through 1980 and beyond.

Taking grip

Over the course of 1986, these trends and developments will impact distribution harder than they have over the last few years. Salespeople, both inside and out, will be trained as specialists in technical and marketing skills, while order entry and purchasing information will be handled electronically. Inventories will reflect preparation for further penetration into automation and mechanization in both the factory and the untraditional high-tech markets. Sources of supply will shrink under consolidations, divestitures and mergers, and imports may become even more attractive.

"Distribution's function and the economic reasons for having distributors is going to greatly increase in the coming decade," concludes Ed Reid. "The key is for a distributor not to question *Is high tech in or is it premature?* It's to get in there and start thinking and coming to conclusions. It's good to look at trends analytically, but the distributor has got to take these nationwide and worldwide trends, plus his own common sense, his own gut feelings and his own intimate knowledge of his company, his employees and his customers, and apply those to his marketplace. He's got to develop a plan and implement it with a sense of urgency."□

The market

Portable power tools and accessories have always been attractive product lines for distributors. Profit margins are good, markets are broad, and there are unlimited opportunities available to increase sales. Leading markets for portable power tools and accessories are the construction industry, maintenance repair and building trade. New markets are opening up as well, including the quality-conscious do-it-yourselfer, and many distributors are rethinking and reshaping marketing techniques to attract new customers.

According to Frost & Sullivan, a New York-based research firm, sales of electrical portable power tools alone are projected to grow 7% from 1985-1990 with total sales of $2.39 billion in 1990. The forecast for pneumatic tools is an 8% average growth rate for the same period; 1990 projected sales is $907 million. Powder-actuated tools are projected to grow 7%; $39 million in projected 1990 sales; hydraulic powered at a 6% growth from 1985-1990 with total sales projected for 1990 at $13 million.

The construction industry is the leading market for portable power tools; it's labor-intensive and there's a high degree of duplication of equipment. Any number of workers on the same site may be working with similar tools. There are many decision makers at the construction site, from general contractors to specialized craftsmen.

The industrial maintenance market is dominated by electric tools, mainly due to the easy availability of electrical power in every work zone. Since industrial maintenance departments have good control of their tools, they're more likely to buy top-of-the-line merchandise and expect them to last indefinitely. Contractors and construction workers, on the other hand, must deal with high pilferage rates.

For portable power tool accessories, the market is growing rapidly. In the five year period between 1983 and 1988, the entire portable power tool accessories business will grow from $774 million to $1.1 billion in sales. Abrasives will grow at a better than 11% annual rate (see figures), reaching $315 million; saw blades will reach $180 million, exceeding a 9% growth during the period. Sales to the construction industry should reach $138 million by 1988, an 8.2% annual increase from $91 million in 1983. Another market to look out for is the professional/automotive service market, which will grow at an approximate 8.6% annual rate to $227 million in 1988. Accessories for portable power tools serve a wide range of users and applications; the products are expendable and the business doesn't saturate. Profit margins are excellent.

The do-it-yourself market has been expanding rapidly for years. More and more distributors are catering to walk-in customers, even though there is heavy competition for the do-it-yourselfer from retail stores. Distributors are not very interested in the beginning do-it-yourselfer. The *advanced* do-it-yourselfer and local craftsmen are potential customers, however, and a walk-in counter service business is profitable when selling power tools and accessories. The edge the distributor has over such retailers as K-Mart and Sears is the professional quality of the lines sold. There are major differences between tools used by the homeowner and tools used professionally by construction workers and craftsmen. Consumer tools, for instance, have considerably less expensive cord jackets that can't stand up to low temperatures. Switches are more durable on professional tools; chances are a do-it-yourselfer won't be using his power tool for five hundred man-hours. The do-it-yourselfer usually uses a tool infrequently and requires few blades, bits, abrasives, etc. Even though large retail chains have expanded their tool departments, the truly professional worker won't be able to find what he needs at those stores. Distributors who have an advanced do-it-yourself market in their areas are using merchandising displays and posters provided by manufacturers to promote the tools inside their stores. Almost half of the business is

TOTAL MARKET SALES AND PROJECTIONS 1983-1988
Power Tool Accessories
VALUES IN MILLIONS OF DOLLARS

	1983	1984	1985	Projected 1986	1987	1988	% GROWTH
DRILL BITS	87.29	97.44	105.56	113.68	119.77	124.85	7.4
Metal	39.27	43.84	47.49	51.14	53.88	56.17	7.4
Wood	27.33	30.51	33.05	35.59	37.50	39.09	7.4
Percussion	20.69	23.09	25.02	26.94	28.38	29.59	7.4
SAWS	115.00	134.00	142.00	162.00	172.00	180.00	9.4
Straight	56.00	66.00	70.00	79.00	84.00	88.00	9.5
Reciprocating	14.25	16.80	17.82	20.11	21.38	22.40	9.5
Jig Saber	15.41	18.16	19.26	21.73	23.11	24.21	9.5
Hole	15.39	18.14	19.24	21.72	23.09	24.19	9.5
Band	10.95	12.90	13.69	15.44	16.42	17.20	9.5
Circular	59.00	68.00	72.00	83.00	88.00	92.00	9.3
General Purpose	24.34	28.06	29.71	34.25	36.31	37.96	9.3
Bonded Cutoff	15.56	17.93	18.99	21.89	23.21	24.26	9.3
Carbide	19.10	22.01	23.31	26.87	28.49	29.78	9.3
ABRASIVES	185.11	218.13	248.38	273.16	296.88	315.19	11.2
Grinding Wheels	28.44	33.59	37.90	42.07	45.76	48.54	11.3
Cup Wheels	22.52	26.53	30.23	33.23	36.15	38.34	11.2
Disks	29.86	34.87	39.84	43.67	47.21	50.39	11.2
Flap Wheels	15.85	18.68	21.34	23.40	25.45	27.00	11.2
Belts	28.51	33.60	38.22	42.07	45.77	48.55	11.2
Sheets	26.68	31.44	35.61	39.38	42.84	45.44	11.2
Drums	15.04	17.72	20.24	22.19	24.15	25.61	11.2
Mounted Wheels	18.40	21.68	25.00	27.16	29.54	31.33	11.2
ROUTER BITS	11.88	14.36	15.84	18.81	20.79	21.78	12.9
High Speed Steel	6.24	7.54	8.32	9.88	10.92	11.44	12.9
Carbide	5.64	6.81	7.52	8.93	9.87	10.34	12.9
OTHER CONSUMABLES	54.94	62.94	68.93	73.93	80.92	84.00	8.9
Wire Wheels	13.83	15.84	17.35	18.61	20.37	21.14	8.9
Buffing Wheels	8.52	10.27	11.25	11.47	12.56	13.02	8.9
Polishing Pads	10.62	12.16	13.32	14.29	15.64	16.24	8.9
Rotary Files	10.32	11.82	12.95	13.89	15.20	15.78	8.9
Miscellaneous	11.65	12.83	14.06	15.67	17.15	17.82	8.9
HOLDERS	74.30	80.33	87.36	93.39	99.41	104.57	7.1
Chucks	14.72	15.92	17.31	18.50	19.70	20.72	7.1
Power Bits	13.73	14.84	16.14	17.26	18.37	19.31	7.1
Disk Pads	11.10	12.00	13.05	13.95	14.85	15.63	7.1
Keys	15.69	16.96	18.44	19.72	20.99	22.07	7.1
Power Sockets	10.27	11.11	12.08	12.91	13.74	14.47	7.1
Extensions	8.80	9.51	10.34	11.05	11.77	12.38	7.1
CHAIN SAW BLADES AND ACCESSORIES	181.00	194.00	202.00	211.00	222.00	230.00	4.9
OTHER ACCESSORIES	64.44	68.64	73.66	78.62	82.08	86.28	5.1
TOTALS	773.96	869.83	943.75	1024.69	1093.85	1146.67	8.2

Source: Frost & Sullivan, Inc.

The market...

conducted over the counter; catalog and telephone sales rank second and third. Distributors who feature full counter service when selling portable power tools and accessories offer their customers–from the advanced do-it-yourselfer to construction workers–convenience, a full line of professional products and repair capabilities.□

THE U.S. PORTABLE POWER TOOL MARKET
(SIC 3546)

Manufacturing/Durable Goods

SIC No.		Consumption ($ mil)
24	Lumber & Wood Products	$66
25	Furniture, Fixtures	46
32	Mineral Products	74
33	Primary Metals	61
34	Fabricated Metals	67
35	Machinery, Computers	154
36	Electrical/Electronic, Appliances	104
37	Transportation Products	173
38	Instruments/Controls	28
39	Durable Goods NEC	14
	subtotal	$787

Manufacturing/Non Durable Goods

20,21	Foods & Tobacco	$34
22,23	Textiles, Apparel	31
26,27	Paper & Printing	28
28,29	Chemical & Oil Products	45
30,31	Rubber, Plastics, Leather	18
39	Non Durable Goods NEC	10
	subtotal	$166

Non-Manufacturing

Agriculture, Forestry, Fishing	$46
Mining, Oil & Gas Extraction, Pipeline	37
Construction, Trade Contractors, Mechanical	285
Trucking & other Auto-Transportation Services	45
Rail Transportation	26
Marine Transportation	10
Air Transportation	19
Automotive (car, truck, tractor); other machinery M/R services	420
Public Utilities	29
All other including wholesale/retail trade, institutional, equipment rental, consumer use	820
Government, including defense	160
subtotal	$1897
Total U.S. market	$2850

Source: Trinet, Inc., Parsippany, NJ.

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Abrasives review

Product Reviews are 12-month updates of Distributor Product Showcases . . .

While traditional abrasives applications are declining, new ones are taking their place. The question is whether the abrasives business will ever come all the way back to its former glory.

The abrasives industry, more than most, is dependent upon activity in durable goods production. Abrasives are used for everything from shaping, forming and smoothing to cutting, cleaning and de-burring.

Today, however, buffeted by the winds of change, the abrasives industry is facing an uncertain future. While isolated applications—notably aerospace and electronics—show continued strength, venerable markets are disappearing as the U.S. shifts increasingly to a service-oriented economy with manufacturing on the decline. In fact, there are few basic industries remaining that America can call exclusively her own. Such sacrosanct strongholds of abrasives applications as autos, steel, appliances and furniture are experiencing a reduction in units of production.

Norton's Abrasives Marketing Group vice president, Robert N. Hamilton notes that he expects to see 1986 as "Probably flat or down a few percentage points, but less than five (points) in physical volume.

"I think automotive will probably be down. Machine tools are in the doldrums and I don't see them coming out. Construction equipment is in bad shape. And in terms of basic industries, foundries are gradually going out of business, steel is slow and the bearing industry is in trouble. And these are long-term trends."

On the other hand, predicts Hamilton, "Aerospace is probably going to be strong. Defense is going to be strong and forest products and furniture are going to be strong."

Reflecting what would have to be characterized as an atypical point of view, Peter C. Spuller, supervisor of marketing services for Klingspor Abrasives, Inc. reports that the German firm is doing well in the U.S. market. "Our business has done nothing but pick up. We're doing well with metal finishing. Polishing and metal industries seem to be picking up for us and all forms of primary and secondary metals seem to be going great guns. We're selling pretty much in Silicon Valley."

Standard Abrasives' sales manager, David Liffers, sees the economy as very spotty in 1986. "Overall, the U.S. economy has been very regionalized and I see some areas in the deep south and on the East Coast doing very well and some other areas, particularly around the petroleum industry, Texas and Oklahoma, taking a downturn which I believe will continue on through 1986. The West Coast, with the aerospace industry, remains healthy as both commercial and military aircraft seem to prosper," says Liffers.

"I think autos will take an upward trend, although it doesn't affect our business a lot because the auto industry and aftermarket are very specialized parts of the abrasives business," he adds.

And George A. Pishek, manager of applications for Osborn Manufacturing joins the concensus. "In the next 12 months, I would say business will be slow in all areas and I don't see anything really big happening. I think oil is going to be bad for at least another year."

A final voice to the prognosis of an essentially listless economy is William McCleod, director of marketing with Radiac Abrasives. "We see business as basically flat and if you were to segment it, the smokestack industries might even be a little depressed."

Perhaps the most candid language concerning the abrasives market in 1986 was used by a high-level industry spokesman who requested anonymity.

"There is a tremendous over-capacity in the industry which has gotten to the point where nobody's making any money. What we see is that no one can afford to do the R&D that will help find new markets. The major firms have cut

research to the bone so that not many new products are coming out.

"The most promising prospects are in the defense industry which seems to be solid. Metal working in general is spotty, automotive is supposed to slack off and steel is showing a glimmer of hope. If President Reagan's import restrictions ever take effect, the steel industry and the heavy abrasives associated with steel will somewhat improve. The foundry industry is still in the doldrums and not a lot of improvement is seen there. The latest I've seen on the oil tool industry is that it will remain flat for another couple of years," he states.

No agreement on imports

On the subject of imports, opinion is about evenly divided by domestic producers as to whether the worst is over.

"The basic problem we have in the U.S. is that the market is gradually shrinking by maybe one or two percent a year," says Norton's Hamilton. "Our customers are losing their export markets and they're losing their domestic

Abrasives review . . .

markets to exports and, on top of that, they're sourcing some of their product lines from overseas. You put those three things together and you get market shrinkage that's significant," he says.

"And," continues Hamilton, "some of the change has to be viewed as permanent. When U.S. auto companies build plants in Mexico or Brazil or enter into a contract with somebody in Japan, those things are permanent and the strengthening or weakening of the dollar isn't going to make them shut down those plants. Those decisions are made for 20 years, so I don't look for the weakening of the dollar to help us in the short term and it will never get us back to where we were.

"And then of course business is still poor in Europe so they view the U.S. as a wonderful market and so do those in the Far East. And, when Carborundum went out of business, they undoubtedly gobbled some of that and there are a number of domestic manufacturers that are going out of business or consolidating, so there's a shakeout in the industry," emphasizes Hamilton.

McLeod from Radiac, however, doesn't agree that the worst is over. "We don't see imports as a huge dent but we are concerned about them. I don't feel that imports have peaked and I feel that there will be continued pressure, especially from Third World countries. I see Korea becoming more active and I definitely feel that the Chinese will become more viable. If I had to estimate, I would say that bonded abrasives imports don't exceed 10% today and that may be high, although I think the coated industry has more short-term risk than the bonded."

According to our anonymous source, however, imports pose a challenge of major proportions. "Some people feel that any abrasive that can be described as a commodity item will probably end up being foreign sourced or produced on the Mexican border," he says.

"I think most people in the manufacturing area right now are running scared about how to save their companies and how to save their jobs, and at times, are being faced with what look like insurmountable odds. Although a lot of people are against protectionism, we're not competing with any one company. We're competing with a whole mode of operation and foreign governments."

A strong dollar no panacea

Despite the much touted salutary effect of a weakened dollar in general, and the balance of trade in particular, Hamilton notes that "The weakening dollar will make a difference, but not a quick one. It takes a year or two to work through the system. When the dollar was shooting up, foreign manufacturers weren't lowering their prices in the states so they have a good cushion."

Liffers from Standard maintains that

[*continued on page 128*]

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SHIPMENTS OF GRINDING AND POLISHING MACHINES
Units, 1977 to Date

Products	1977	1978	1979	1980	1981	1982	1983	1984
UNITS TOTAL	95,234	110,202	107,288	97,004	91,548	58,362	56,864	59,959
Unit Value Under $1,000 (a)	80,484	91,373	89,238	79,509	76,687	48,651	50,512	51,614
Unit Value $1,000 and Over (b)	14,750	18,829	18,050	17,495	14,861	9,711	6,352	8,345
External Cylindrical Grinding Machines								
Plain	172	247	325	297	383	394	140	104
Universal	204	226	313	305	291	302	242	216
Roll and Centerless	(e)							
All Other External (c)		546	821	935	880	637	378	366
Internal Cylindrical Grinding Machines	781	(e)	(e)	(e)	(e)	(e)	(e)	(e)
Surface Grinding Machines								
Rotary Table Type	271	289	307	348	264	152	120	133
Reciprocating Table Type								
Vertical and Horizontal	1,632	1,921	2,217	2,941	1,850	1,270	862	819
Hand Surface Type	2,581	2,839	3,147	3,523	1,822	1,310	1,251	1,708
Planner Type and All Other	(e)	(e)		(e)	(e)	(e)	(e)	(e)
Bench, Floor and Snag Grinders	1,066	1,359	728	537	484	469	316	460
Tool and Cutter Grinding Machines								
Universal	2,079	2,111	2,367	2,610	2,818	1,568	851	955
Special								
Polishing and Buffing Machines								
Stand, drum & disc types	372	849	543	326	309	(e)	(e)	332
All Other Polishing	1,102	2,011	2,083	1,581	1,501	650	501	809
Honing and Lapping Machines								
Honing Machines (Except Gear) Internal and External	2,445	1,667	2,154	1,871	1,486	1,002	(e)	(e)
All Other Honing and Lapping Machines		362	535	370	354	(e)	(e)	(e)
All Other	2,045	4,402	2,420	1,851	2,419	1,957	1,691	2,443

(e) Included in "All Other." *Source: U.S. Department of Commerce*

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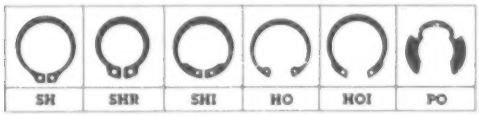

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Abrasives review . . .

prices of offshore products contain enough margin to counteract any difference in price from a devalued dollar: "We have a lot of foreign manufacturers who try to sell us coated abrasives material and they do not see any big increase in their prices. They see their business and their price levels remaining quite steady outside of the normal price increases, about 5-6% annually."

High tech's unfulfilled promise

Despite the vision of high tech related companies replacing traditional smokestack industries, abrasives experts say that the promise is still largely illusory.

Norton's Hamilton notes that electronics has been "in a slump" but he voices optimism that "It will be stronger next year. And it's a good market for abrasives that needs to be developed. It's also a two-part market. One is for maintenance materials such as toolroom wheels and then there is a need for material used in the production process which tends to be very specialized.

"We pay a lot of attention to electronics because in ten years we may not have a machine tool industry to sell to. We have keyed into the electronics industry as one that is going somewhere, but that means investment and product development. You don't just sell them stuff off the shelf," Hamilton states.

Liffers from Standard Abrasives says that "Up around Silicon Valley a lot of our product was used in finishing the cabinets that housed computers and we find that business to be off quite a bit this year. They are laying off a lot of people so there was quite a drop in that particular end of the business."

Finding a niche

The one subject on which all those surveyed agreed was that the key to survival for U.S. abrasives manufacturers, at least, is to specialize.

McLeod of Radiac says "We see the necessity to concentrate on key areas of strength. The day of trying to be everything to everybody is over. Although we're a full-line supplier and plan to continue to be one, the emphasis will not be as broad-based as before."

Perhaps the future of the abrasives business was best summed up by the unnamed industry source who commented: "The future in abrasives undoubtedly belongs to the engineered specialty products which are more difficult to source. All companies are trying to confine their business to an area where they can do a better job. There is one benefit to the intense competition. The companies that survive are certainly going to end up being more efficient. The trouble is, you're going to have to take a lot of hard knocks to get there."□

By **Doug Harper**
Senior Editor

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